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C O N F I D E N T I A L SECTION 01 OF 03 TOKYO 003162

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SUBJECT: WHA A/S SHANNON'S MEETINGS WITH JAPANESE TRADE
OFFICIALS, BUSINESS LEADERS

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Classified By: Assistant Secretary Thomas A. Shannon for Reasons 1.4 (b), (d)

11. (C) SUMMARY: Japanese businesses and trade officials told Western Hemisphere Affairs Assistant Secretary Thomas A. Shannon they continue to see long-term growth potential in Latin America, particularly in Brazil, Mexico, Colombia and Peru, despite possible short-term negative effects on the regional economy due to the global financial situation. Building on the positive experience of free trade agreements with Mexico and Chile, they said Japan will continue to pursue greater economic integration with the more mature emerging markets in Latin America. Meanwhile, resource necessity is driving Japanese investment in Venezuela. Both business representatives and GOJ officials observe a convergence of U.S. and Japanese interests and approaches in the region. END SUMMARY.

REGION GENERALLY WEATHERING FINANCIAL CRISIS

12. (C) Representatives of leading Japanese companies in Latin America were generally optimistic about the region's economic prospects during a breakfast meeting with Assistant Secretary Shannon October 14. Honda Corporation's Deputy General Manager for Policy Coordination, Naofumi Sakamoto, said the region's widening middle class, especially in Brazil, will contribute to longer term economic growth. Sakamoto also noted the presence of a sizable population of Brazilian- and Peruvian-Japanese that is both a consumer of Japanese goods as well as a human resource for Japanese companies. While noting a potential decline in consumer demand in the short-term as lending slows in the wake of the global financial situation, Sakamoto said that the region's experience with past financial crises has led countries to adopt more stable economic policies while also appreciating the value of participating in the global economy; a trend not as apparent in emerging economies elsewhere. Mitsui Corporate Planning and Strategy Division Deputy General Manager Hajime Tonoki echoed this sentiment, saying that the real economy, particularly in Brazil, "does not necessarily track with global financial markets." Tonoki said Japanese trade and investment in the region now revolves around four areas: (1) mineral resources; (2) foodstuffs; (3) building the regional consumer market; and (4) infrastructure development. He added, the conclusion of bilateral agreements is the key to regional economic growth now that the Doha Round of trade talks has collapsed.

DIFFICULT TO COMPETE WITH CHINA INC.

13. (C) Both businessmen cited competition from China as a key challenge to Japanese business success in the region. In Honda's case, Sakamoto explained in Brazil his firm targets the middle class with relatively higher end motorcycles, while China has made inroads into the low-end consumer market with cheaper, inferior quality products. However, Sakamoto explained the poor quality control of Chinese goods threatens to tarnish the reputation of foreign-made motorcycles in general and thus could weaken demand across the industry. In addition, Sakamoto said Chinese imitators undermine Honda's brand, and he urged the U.S. to continue to push for stronger enforcement of intellectual property rights in its dialogue with regional authorities. Tonoki noted Japanese firms engaged in steel-making and other materials processing have difficulty competing with Chinese state-backed firms. He also said he has called upon the countries in the region for greater investment transparency.

TOWARDS AN EXPANSION OF FREE TRADE

14. (C) Building on the success of its early economic partnership agreements (EPA) with Mexico and Chile, Japan will continue to pursue trade liberalization in emerging markets, including those in Latin America, according to Ministry of Economy, Trade and Industry Trade Bureau Director General Hideichi Okada. Okada said METI Minister Nikai recently called for a review of Japan's global trade strategy, stressing the need to move beyond Asia to target

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emerging economies in Latin America, the Middle East, and Africa, and Russia. Okada noted the particular importance of Brazil to Japan, which Nikai's predecessor as trade minister visited in July 2007: the first such METI minister-level visit in 25 years. Japan and Brazil agreed to a trade and investment committee during that visit, and this committee will have the first meeting in November. While Japan is not in a position to conclude a comprehensive EPA with Brazil at present, Okada said, the countries are cooperating in various areas such as bio-ethanol and semi-conductor development.

15. (C) Japan is also in the final stages of negotiating a bilateral investment treaty with Peru, which Okada said will hopefully be announced in time for the November APEC summit in Lima. Okada said with EPAs with Vietnam, Switzerland, and India near completion, journalists frequently ask who will be next, and he offered Colombia and Peru as potential candidates. He noted the USG's September 22 launch of negotiations with the P4, and said Japan and USTR seem to be "thinking similarly" as far as supporting expansion of free trade in the Pacific with the P4 or ASEAN 3, with the eventual goal of a Free Trade Area of the Asia-Pacific.

PROSPECTS OF VENEZUELA AND THE LATIN LEFT

16. (C) Okada said Japanese firms are interested in petroleum development in Venezuela, and Japan recently signed an MOU for exploration in the Orinoco River delta with PdVSA. A/S Shannon told Okada the U.S. also has substantial investment in the Venezuelan petroleum industry and Venezuela relies heavily on the U.S. to refine and distribute its petroleum products. As a result, Chavez's anti-American rhetoric does not reflect market reality.

DG Kitera

17. (C) International Cooperation Bureau Director General Kitera briefed A/S Shannon on Japan's policies toward countries in the WHA region with respect to official development assistance (ODA), noting that despite economic growth in much of the region, countries such as Nicaragua, Honduras, and Guatemala still actively seek out Japanese ODA. "Unfortunately," he said, "budget pressures have reduced ODA to less than 40 percent of what it was just 10 years ago, with the result that Japan can no longer make everyone happy." ODA for WHA countries is also being squeezed by former Prime Minister Yasuo Fukuda's pledge at the recently concluded TICAD IV Summit to double ODA to Africa over the next five years. "If we can't get more money for the ODA budget," Kitera lamented, "we will have no choice but to look for efficiencies, make difficult choices, and cut aid elsewhere." He spoke wistfully of his experiences in the Bureau in the 1990's, when Bolivia's international airport was considered a "masterpiece" of Japanese grant assistance.

18. (C) A/S Shannon expressed appreciation for close consultations with Japanese counterparts over the past several years and stressed the importance of continuity of approach of the United States and Japan to the region. Noting that U.S. and Japanese assistance in the region is often complementary, he praised Japan for working with the United States and other democratic partners to demonstrate our shared agenda and send a positive message. At the same time, he asserted, Japan must look for programs where it can have the greatest impact. Shannon urged Japan to learn from the U.S. experience of the 1990's and be more strategic about decisions to refocus limited ODA resources. He regretted the way the United States had opted to cut programs across the board, making it seem to some countries as if the United States had simply walked away. Japan's decisions on ODA could have a similar impact on how Japan is viewed by recipient countries, he cautioned. Shannon also briefed Kitera on the just-concluded "Pathways to Prosperity" economic partnerships, saying he hoped to begin a dialogue inside the group on widening trade with Asia. He cited this initiative as evidence of the critical role that trade can play in economic development.

19. (U) Assistant Secretary Shannon has cleared this message.

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SCHIEFFER